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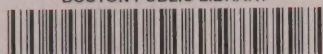
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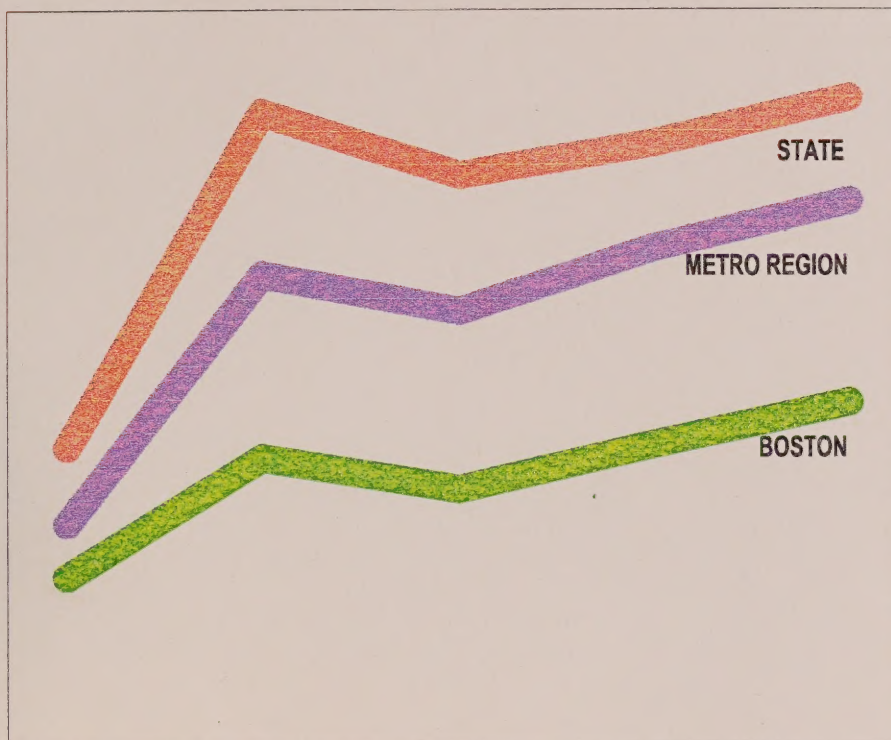


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INVESTING IN JOBS

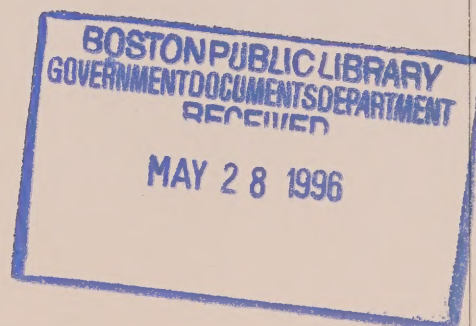


*A Report on the Financial Services Industry -
Its Importance to Boston,
the Metropolitan Region, and the State*



CITY OF BOSTON
Thomas M. Menino, Mayor

Marisa Lago
Chief Economic Development Officer



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BOSTON'S PLANNING & ECONOMIC DEVELOPMENT OFFICE



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INVESTING IN JOBS

A Report on the Financial Services Industry -
Its Importance to Boston,
the Metropolitan Region, and the State

EXECUTIVE SUMMARY

The financial services industry has long been recognized as the backbone of Boston, the Greater Boston region, and the Commonwealth of Massachusetts. In the last 50 years, the size of the industry has grown from negligible, helping to generate the economic activity and employment that have characterized the region's thriving economy.

Today, financial services is a vital economic activity in Boston and all of the surrounding areas, and is a major source of employment in the City of Boston.

Financial services is a major source of employment, and it is a major source of income for the City of Boston. It is a major source of income for the City of Boston, and it is a major source of income for the City of Boston.

All agree that continued growth in the financial services industry is a key to the growth of the region, and it is a key to the growth of the region.

The state is committed to supporting the financial services industry, and it is a major source of income for the City of Boston. It is a major source of income for the City of Boston, and it is a major source of income for the City of Boston.

But competition for the financial services industry is increasing, and it is a major source of income for the City of Boston. It is a major source of income for the City of Boston, and it is a major source of income for the City of Boston.

If it is necessary to keep the financial services industry, local government must not only encourage the industry, but it must also respond to the competition for the financial services industry.



CITY OF BOSTON

Thomas M. Menino, Mayor

Marisa Lago

Chief Economic Development Officer

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INVESTING IN JOBS

A Report on the Financial Services Industry - Its Importance to Boston, the Metropolitan Region, and the State

EXECUTIVE SUMMARY

The financial services industry has long been important to the economy of Boston, the metropolitan region, and the Commonwealth of Massachusetts. In the last 30 years, the size of the industry has more than doubled, helping to generate jobs, economic activity and tax revenues, and to offset the decrease of the manufacturing industry.

Today, financial services is a \$7.5 billion industry in the state and 46% of the jobs in financial services are located in the City of Boston.

Financial services is an extremely beneficial industry, since it attracts outside investment, produces substantial tax revenues, uses little in the way of resources, and, most importantly, generates a large number and a wide variety of jobs at all wage levels.

All signs point to continued growth for the financial services industry - but that growth does not have to take place in Massachusetts.

The state, in general, and the City of Boston, in particular, are attractive to the financial services industry because of the highly educated workforce, proximity to supporting industries, availability of capital and high quality of life.

But competition for this beneficial - but also "portable" - industry is becoming more and more aggressive, with more and more states offering tax concessions to get companies to relocate. Some parts of Massachusetts financial service companies have already relocated to neighboring states to take advantage of these incentives.

If it is to continue to be a "leading industry" in the local economy, local government must not only *understand* the importance of but *respond* to the competition for the financial services industry.

INVESTING IN 1992

A Report on the Financial Services Industry
The Importance of Real Estate
The Metropolitan Region and the State

EXECUTIVE SUMMARY

The financial services industry has long been recognized as the backbone of the economy. In the past few years, however, it has become increasingly important as a source of capital for the private sector. This report examines the industry's performance in 1992, focusing on the role of real estate in its operations. It also discusses the challenges facing the industry and offers suggestions for improvement.

During 1992, the financial services industry experienced a period of relative stability. The industry's assets grew by 10%, while its liabilities increased by 8%. This growth was primarily driven by the expansion of the industry's real estate portfolio.

Real estate has long been a key component of the financial services industry's portfolio. It provides a source of capital for the industry's operations and a means of diversification. In 1992, the industry's real estate portfolio grew by 15%, while its liabilities increased by 8%. This growth was primarily driven by the expansion of the industry's real estate portfolio.

The financial services industry's growth in 1992 was primarily driven by the expansion of its real estate portfolio. This growth was primarily driven by the expansion of the industry's real estate portfolio.

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FACTS ABOUT THE FINANCIAL SERVICES INDUSTRY:

The financial services industry is a major economic engine in the city, region and state.

The financial services industry generates:

- over 47,000 jobs with a payroll of \$3.2 billion and state income taxes paid of \$155 million in the City of Boston.
- over 83,000 jobs with a payroll of \$4.4 billion and state income taxes paid of \$214 million in the metropolitan area.
- over 102,000 jobs with a payroll of \$4.9 billion and state income taxes paid of \$240 million across the state.

Boston is home to a major share of the state's financial services jobs.

- over 57% of the financial services industry jobs in the metro region are in Boston.
- 46% of all of the financial services jobs in the state are in Boston.

Financial services generate a variety of well paying jobs within the industry.

The average annual wage is:

- \$68,515 in Boston per year.
- \$53,429 in the metro region.
- \$48,777 across the state

Financial services generates jobs at all wage levels.

- nearly 60% of all jobs are in clerical or service positions.
- one-third are classified as management, professional, or technical.
- 8% are in sales.

Financial services also generates jobs in supporting industries.

These supporting industries include:

- telecommunications and computer technology.
- printing and advertising, law and accounting.
- restaurants, hotels and transportation.



Financial services have shown strong and consistent growth over the past three decades.

Between 1966 and 1995, financial services:

- grew by 105.9% in Boston, adding over 24,000 new employees.
- grew by 154.9% in the metropolitan area, adding more than 50,500 jobs.
- grew by 119.3% across the state, adding 55,600 new jobs.

The financial services industry is capturing an increasing share of total jobs.

In 1995, financial services accounted for:

- 8.9% of all jobs in Boston.
- 4.7% of all jobs in the metropolitan region.
- 3.5% of all jobs in the state.

The financial services industry is still a growth sector for the city, region, and the state.

- Growth in financial services between 1995 and 2005 is projected at 16% in Boston, 10% in the region, and 8% in the state.
- A number of recent studies have also concluded that the financial services industry will remain strong. These include the Greater Boston Chamber of Commerce's "Leading Industries Report," Harvard Business School Professor Michael Porter's "The Competitive Advantage of Massachusetts," and Dr. James Howell's "Howell Report."

*The core industry clusters in our economy (health care, information technology, knowledge creation services and **financial services**) would be the envy of most nations. All are expected to be among the fastest growing sectors of the national and world economy.*

"The Competitive Advantage of Massachusetts," Prof. Michael E. Porter

INTRODUCTION

Since Colonial times, when trade with Europe, the West Indies and the Orient supplanted agriculture and fishing as Boston's leading industry, the financial services industry has been important to Boston and Massachusetts. First in importing and exporting, then in banking and investment, later in insurance, and today in mutual funds, Boston has been a financial center for the United States throughout the nation's history.

The financial services industry is one of the most beneficial types of industries to an area, since it attracts investment, produces substantial tax revenues, uses little in the way of natural resources, and, most importantly, generates a large number and a wide variety of jobs both within the industry itself and in supporting industries.

DEFINITION OF FINANCIAL SERVICES*

Under the Standard Industrial Classification (SIC) code used by the U.S. Department of Commerce, the financial services industry includes insurance carriers and agents and companies involved in real estate of all kinds. Because these sectors are so different from the other sectors of the industry and in order to examine more closely the growing part of the industry that deals exclusively with the collection and investment of capital, the insurance and real estate sectors have been excluded from this analysis. For the purposes of this report, financial services is defined as **depository and non-depository institutions, security and commodity brokerages** (including **mutual funds**), and **holding companies**.

MAJOR FINANCIAL SERVICES FIRMS IN BOSTON

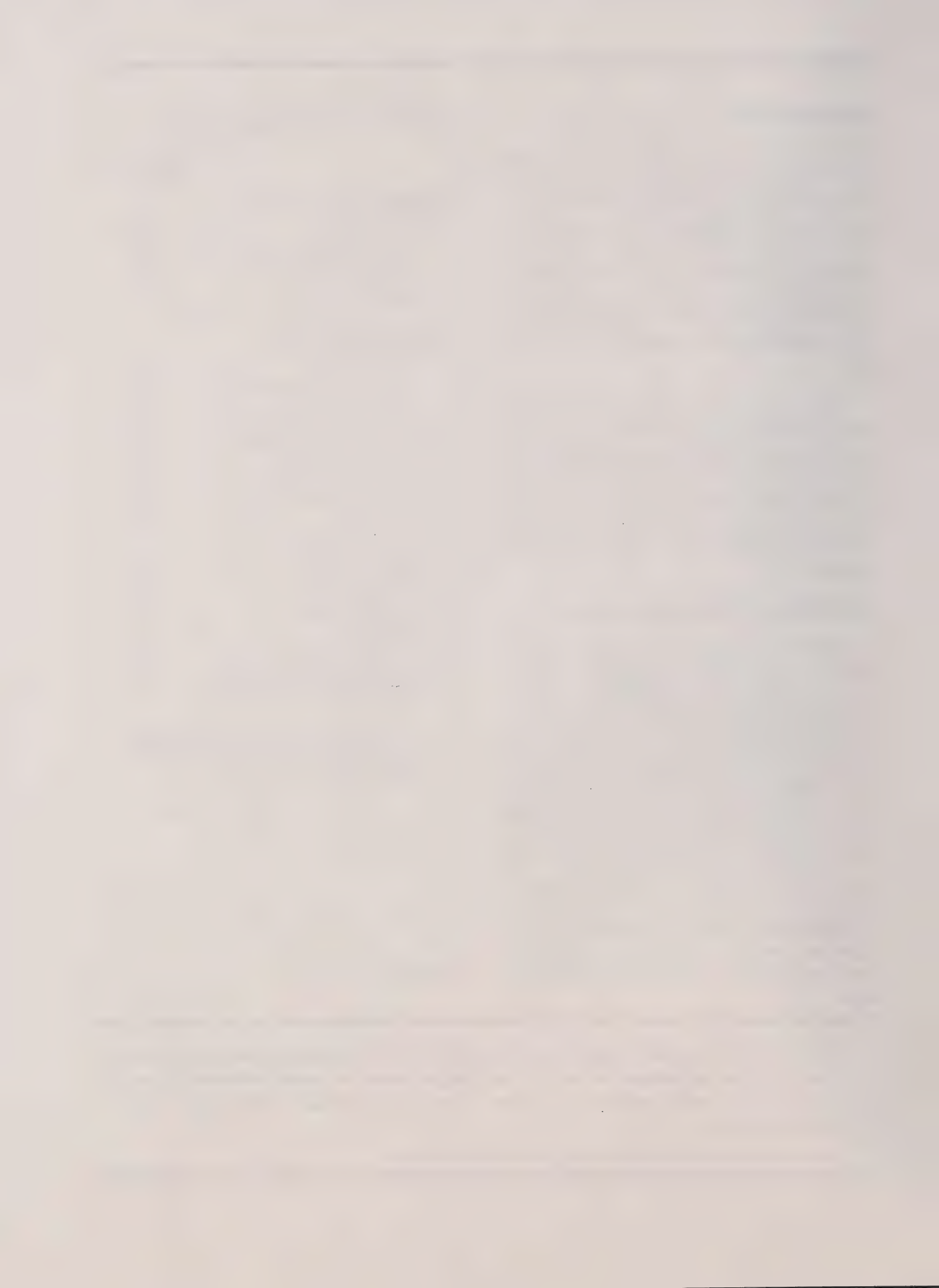
	Number of Employees in Boston
Banks and Insurance Companies	
Bank of Boston	7,140
The New England	3,000
Fleet Bank of Massachusetts	2,500
State Street Bank Corp.	1,553
BayBank	150
Brokerage, Mutual Funds and Other Financial Services	
Fidelity Investments	6,649
The Shareholder Services Group	1,500
Putnam Companies	1,314
Massachusetts Financial Services	1,200
Thompson Financial Networks	950
Scudder Stevens & Clark	900
Brown Brothers Harriman	750
The Pioneer Group Inc.	550
Merrill Lynch	500
The Colonial Group	450
Keystone Group Inc.	400
Eaton Vance Corp.	350
Tucker Anthony Inc.	250
Lehman Brothers Inc.	200
PaineWebber	200
Cowen & Co.	130
Prudential Securities Incorporated	120
Invesco Management & Research Inc.	44
United Asset Management Corporation	40

Note: List includes only firms for which number of employees is reported. Sources of information include Boston Business Journal, Book of Lists, Fidelity Investments survey, BRA/EDIC survey.

* See Note 1.

This sector also benefits the region by utilizing highly skilled employees graduating from the area's colleges and universities, and by employing an extensive support structure of consulting, legal, accounting and research services. It draws from and adds to the region's economic strengths.

Greater Boston's Leading Industries: Drivers of the Region Economy, A Greater Boston Chamber of Commerce Report



THE FINANCIAL SERVICES INDUSTRY IS A MAJOR ECONOMIC ENGINE IN THE CITY, REGION, AND STATE

Financial services is a \$7.5 billion dollar a year industry in Massachusetts, according to the U.S. Bureau of Economic Analysis. According to the most recent statistics available (Department of Employment and Training, ES-202 Series, second quarter, 1995), the financial services industry generates over 47,000 jobs in the City of Boston with a payroll of \$3.2 billion and state income taxes paid of \$155 million. In the metropolitan area, the industry generates over 83,000 jobs with a payroll of \$4.4 billion and state taxes paid of \$214 million. State-wide, financial services generate over 102,000 jobs with a payroll of \$4.9 billion and state taxes paid of \$240 million. (See Table 1, Table 2 and Footnote 1.)

According to a survey done by the Investment Company Institute, the mutual funds sector alone generates 44,516 direct jobs and 53,240 direct and indirect jobs in the in the Commonwealth of Massachusetts, with a payroll of \$1.9 billion last year that paid \$101 million in state payroll taxes.

The survey found that more than \$650 billion in assets are managed in Massachusetts, that 75% of the assets managed are on behalf of investors, banks and pension funds from outside the state, and that these assets represent 23% of all mutual fund assets in the country.

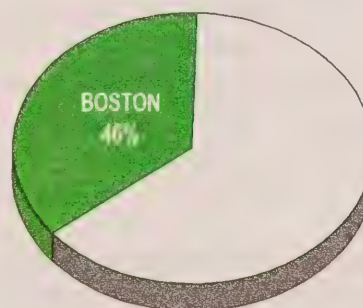
BOSTON IS HOME TO A MAJOR SHARE OF THE FINANCIAL SERVICE INDUSTRY'S JOBS

The City of Boston is the major beneficiary of those financial services jobs. While 18% of all jobs in the state and 30% of all the jobs in the metropolitan region are in Boston, the city is home to 46% of the financial services jobs in the state and 57% of the financial services jobs in the metro region. (See Table 1 and Figure 1.)

Table 1. Jobs in the Financial Services Industry - 1995		
	Number	Percent of State
Boston	47,054	46.0 %
Metro Region	83,197	81.4%
State	102,255	100.0%

Table 2. Payroll and State Income Taxes for the Financial Services Industry in Boston, Metro Region, and Massachusetts - 1995		
	Payroll	State Income Taxes
Boston	\$3,223,920,498	\$155,376,848
Metro Region	\$4,445,147,466	\$214,233,882
Massachusetts	\$4,987,646,798	\$240,379,637

Figure 1.
BOSTON'S SHARE OF THE STATE'S FINANCIAL SERVICES JOBS - 1995



FINANCIAL SERVICES GENERATE A VARIETY OF GOOD PAYING JOBS

The financial service industry generates a broad range of jobs, not only within the industry but in support industries that range from telecommunications and computer technology, to printing and advertising, to law and accounting, to restaurants, hotels and transportation.

Table 3.

Jobs and Average Wages for the Financial Services Industry in Boston, Metro Region and Massachusetts - 1995

BOSTON		
INDUSTRY	#OF JOBS	AVERAGE WAGE
Depository Institutions	17,700	\$49,234
Non-Depository Institutions	1,637	\$48,358
Security & Commodity Brokers	25,675	\$80,638
Holding & Investment	2,042	\$99,381
Total	47,054	\$68,515
METROPOLITAN REGION		
Depository Institutions	43,883	\$37,703
Non-Depository Institutions	6,144	\$42,593
Security & Commodity Brokers	30,185	\$75,583
Holding & Investment	2,985	\$82,902
Total	83,197	\$53,429
STATE		
Depository Institutions	59,339	\$34,291
Non-Depository Institutions	7,711	\$41,445
Security & Commodity Brokers	31,526	\$75,202
Holding & Investment	3,679	\$71,338
Total	102,255	\$48,777

On average, the financial services jobs are high wage positions. As shown in Table 3, in the four sectors covered by this report, the average wage is highest in Boston at \$68,515 per year. The metro region averages \$53,429 and the state \$48,777.

Average wages vary widely by type of occupation. In Boston, the range is from a low of

\$48,358 (in non-depository institutions) to a high of \$99,381 (in holding and other investment offices). This figure would probably be even higher, except that it covers only wage and salary employees and therefore may not cover some of the highest paid workers in the field, brokers who work exclusively on commission. The range of financial services wages in the region runs from \$37,703 to \$82,902, and in the state from \$34,291 to \$71,338, depending on the occupation.

Table 4.

Occupational Distribution of Financial Services Workers in Massachusetts

	Total Jobs	Occupational Distribution
Clerical	42,550	43%
Managers and Officials	19,130	20%
Other	15,610	16%
Professional	8,470	9%
Sales	7,660	8%
Technical	4,090	4%
TOTAL	97,510	100 %

Source: Mass. DET, The Job Guide, 1994 data. SIC codes 60, 61, 62, and 67 only.

Note: The TOTAL jobs figure does not equal the amount shown in Table 1 because of the use of a different data series.

It must be remembered, however, that this is a *mean* and not a *median* salary figure. As such, it does not accurately reflect the large number of lower paying jobs involved in the industry. As shown in Table 4, 43% of all jobs in the financial services industry in the state are clerical positions; 20% are management; 13% are classified as professional and technical; 8% are in sales and 16% are classified as "other" - primarily service jobs. At the regional and state levels, the proportions are similar.

THE FINANCIAL SERVICES INDUSTRY HAS SHOWN STRONG GROWTH OVER THE PAST THREE DECADES.

As shown in Table 5 and Figure 2, financial services jobs grew by 105.9% in Boston, with over 24,000 new employees added in city firms between 1967 and 1995. More than 50,500 jobs were added in the metropolitan area, a growth rate of 154.9%. State-wide, over 55,600 jobs were added to the financial services industry, a growth rate of 119.3%.

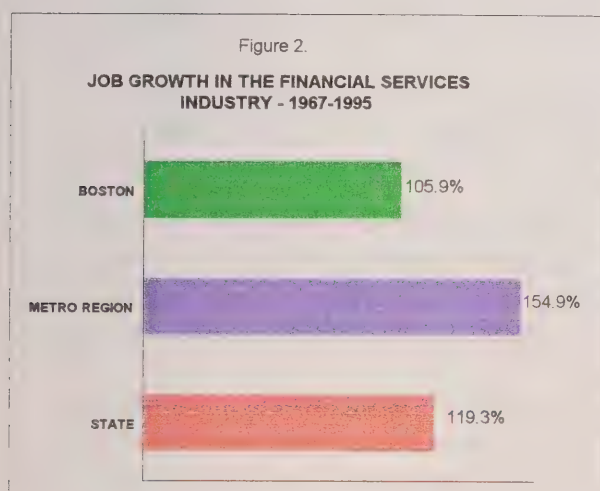
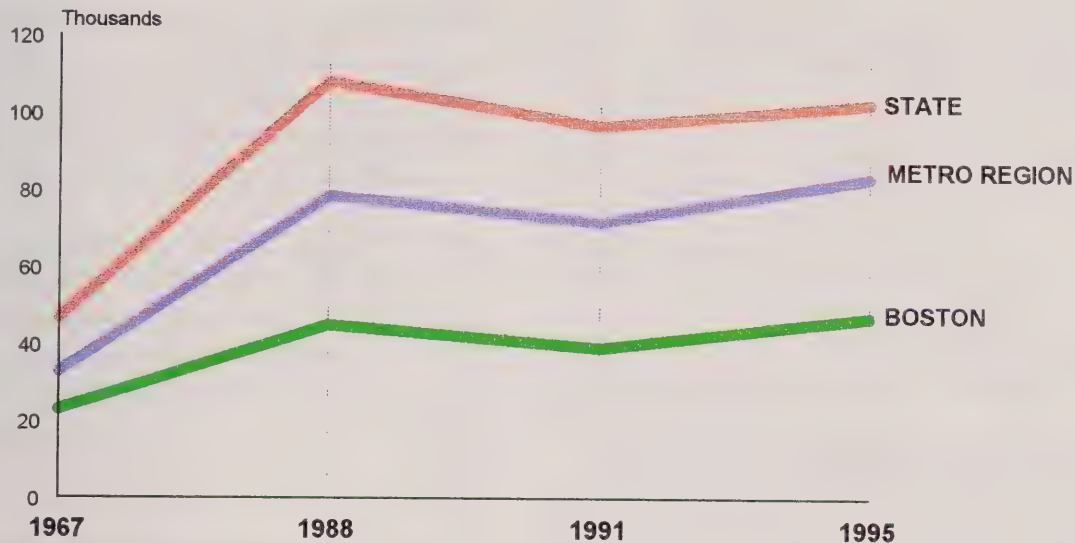


Table 5.		
Job Growth in the Financial Services Industry		
1967-1995		
	Number	Percent
Boston	24,200	105.9%
Metro Region	50,556	154.9%
State	55,630	119.3 %
1988-1991		
Boston	(5,797)	(13.0 %)
Metro Region	(6,697)	(8.5 %)
State	(11,521)	(10.7 %)
1991-1995		
Boston	8,106	20.8%
Metro Region	11,554	16.1%
State	5,795	6.0%
1988-1995		
Boston	2,309	5.2%
Metro Region	4,857	6.2%
State	(5,726)	(5.3 %)

Much of that growth took place between 1967 and 1988, a 20 year period when the number of jobs more than doubled. During that time, the number of jobs in the financial services industry in Boston increased from 22,854 to 44,745. In the metropolitan region, the industry grew even faster, increasing by 140%, from 32,641 jobs to 78,340. In the Commonwealth, the industry grew by over 130%, increasing from 46,625 jobs to 107,981 jobs. (See Table 6 and Figure 3.)

Table 6.									
Job Growth in the Financial Services Industry - 1967-1995									
		1967	1988	1990	1991	1992	1993	1994	1995
Boston	Number	22,854	44,745	40,540	38,948	40,277	41,542	45,086	47,054
	% change		95.8%	(9.4%)	(3.9%)	3.4%	3.1%	8.5%	4.4%
Metro Region	Number	32,641	78,340	76,170	71,643	72,696	78,656	83,388	83,197
	% change		140.0%	(2.8%)	(5.9%)	1.5%	8.2%	6.0%	(0.2%)
State	Number	46,625	107,981	103,069	96,460	96,156	99,402	103,802	102,255
	% change		131.6%	(4.5%)	(6.4%)	(0.3%)	3.4%	4.4%	(1.5%)

Figure 3.

JOB GROWTH IN THE FINANCIAL SERVICES INDUSTRY 1967-1995

Growth in the early and mid-1980s was attributed to factors such as deregulation, diversification, profitable mergers and acquisitions, and successful investment in higher risk lending.

Between 1988 and 1991, the rapid cooling of the regional economy led to a correspondent cooling of the financial services industry. During that time, Boston actually lost nearly 5,800 jobs in the financial services industry, a decrease of 13%. The metropolitan region lost nearly 6,700 jobs, for an 8.5% decrease. State-wide, more than 11,500 jobs were lost in the industry, a decrease of 10.7%.

Since 1991, there has been a split as far as growth in the financial services industry is concerned. Problems with real estate investments and the effect of mergers and acquisitions have led to modest growth in the banking (depository and non-depository) sector of the industry. At the same time, there has been a surge of growth in the investment (securities and commodities) sector. This can best be seen at the state level, where the number of jobs in the banking industry actually fell by almost 3,000, while the number of jobs in the investment sector increased by more than 8,600. (See Table 7 and Figure 4.)

Table 7.

Comparison Of Job Growth in Banking and Investment Sectors of the Financial Services Industry - 1967-1995

			1967	1988	1990	1991	1992	1993	1994	1995
STATE	BANKING	Number	38,218	82,223	76,887	69,888	68,911	69,196	69,755	67,050
		% change		115.1%	(6.5%)	(9.1%)	(1.4%)	0.4%	0.8%	(3.9%)
	INVESTMENT	Number	8,407	25,758	26,182	26,572	27,245	30,206	34,047	35,205
		% change		206.4%	1.6%	1.5%	2.5%	10.9%	12.7%	3.4%



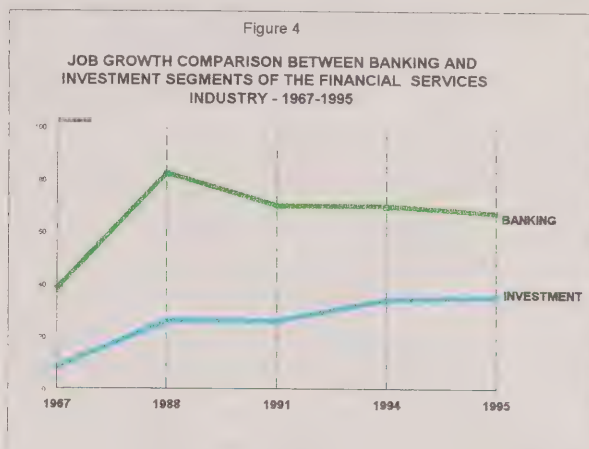
THE FINANCIAL SERVICES INDUSTRY CAPTURES AN INCREASING SHARE OF TOTAL JOBS

Not only has there been a sharp increase in the number of jobs in the financial services industry, but there has also been an increase in the percentage share of financial services jobs in relation to the total number of jobs in the workforce.

In 1995, financial services accounted for 8.9% of all of the jobs in Boston, 4.7% of all of the jobs in the metropolitan region, and 3.5% of all jobs in the state. (See Table 8a and Figure 5.) Those figures represent a significant increase over the last 30 years.

	Financial Services Jobs	Total Number of Jobs	Financial Services Share
BOSTON	47,054	528,440	8.9%
METRO REGION	83,197	1,784,857	4.7%
STATE	102,255	2,930,188	3.5%

Table 8b and Figure 6 display the pattern of growth in job share over the past 30 years. In 1967, financial services jobs represented 6.1% of all jobs in Boston, 3.5% of all jobs in the metropolitan region, and 2.8% of all jobs in the state. The increase in the job share enjoyed by financial services was particularly noticeable between 1967 and 1988, when it grew to 8% in the city, 4.5% in the region, and 3.5% in the state. By 1995, as noted above, financial services represented an



increasing share of all jobs in Boston and the region, while holding steady in the state.

The growth in the share of jobs in the financial services industry is the mirror image of the decline in the share of jobs in manufacturing. In 1967, manufacturing jobs represented 19.6% of all jobs in Boston, 32.9% of all jobs in the metropolitan area, and 41.7% of all jobs in the state. Today, manufacturing represents only 5.3% of



	1967		1988		1991		1995	
	Number	Share	Number	Share	Number	Share	Number	Share
BOSTON	22,854	6.1%	44,745	8.0%	38,948	7.8%	47,054	8.9%
METRO REGION	32,641	3.5%	78,340	4.5%	71,643	4.6%	83,197	4.7%
STATE	46,625	2.8%	107,981	3.5%	96,460	3.5%	102,255	3.5%

Introduction

The purpose of this study is to investigate the effects of the proposed system on the performance of the system. The study is divided into two main parts: a theoretical analysis and an experimental evaluation. The theoretical analysis is presented in the first part of the paper, and the experimental evaluation is presented in the second part.

The theoretical analysis is based on the assumption that the system is a linear system. The experimental evaluation is based on the assumption that the system is a nonlinear system.

The results of the theoretical analysis show that the system is stable. The results of the experimental evaluation show that the system is unstable. The results of the experimental evaluation show that the system is unstable.

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Conclusion

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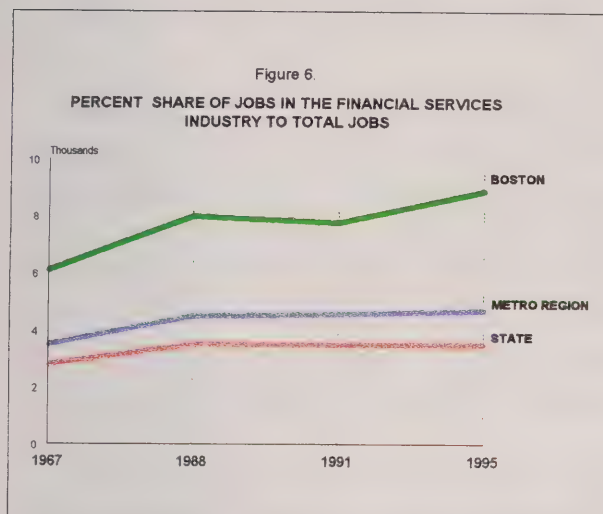
The results of the theoretical analysis show that the system is stable. The results of the experimental evaluation show that the system is unstable. The results of the experimental evaluation show that the system is unstable.

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the jobs in Boston, 12.6% in the metropolitan region, and 15.3% in the state.

Much of the decline in manufacturing has been attributed to companies relocating to areas closer to the raw materials they required or to areas that provided cheaper utilities or labor costs. Much of the increase in financial services has been attributed to the area's highly educated workforce, well developed physical and technological infrastructure, and its maintenance of a high level of quality of life.

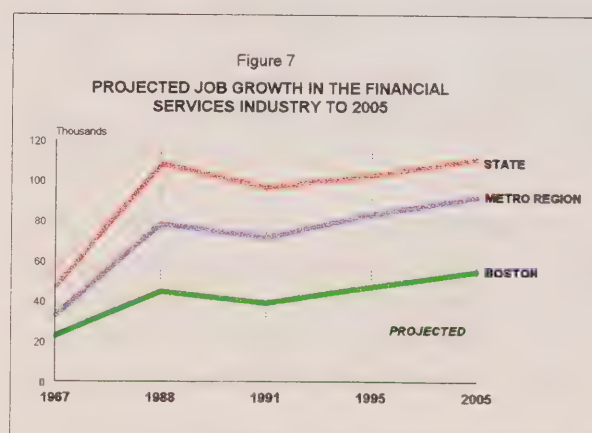
But this change has brought with it profound changes in the occupational opportunities available to residents of the city, region and Commonwealth. While the overall number of jobs has not changed significantly, there has been a decrease in fairly well paying "blue-collar" jobs that required less formal education. The increase in equally well-paying or even better paying "white-collar" jobs has helped to offset that loss in terms of sheer numbers, but those jobs require different skills and often more education and technical training.

FINANCIAL SERVICES IS STILL A GROWTH SECTOR FOR THE CITY, REGION, AND THE STATE

Projections based upon national growth rates supplied by the Bureau of Labor Statistics portray a positive future for the financial services industry in the city, region, and the state. BLS projects growth in financial services at between 2.6% and 2.8% per year for the next 10 years, twice the projected growth rate for the overall U.S. economy. As shown in Table 9 and Figure 7, between 1995 and 2005, financial services jobs are expected to grow by 16% in Boston, 10% in the metropolitan region, and 8% in the state.

As shown in Table 10, projected job growth by the year 2005 results in payrolls of \$5 billion in Boston, \$6.6 billion in the metro region, and \$7.2 billion in the state. State income taxes are projected to grow from \$240 million per year in 1995 to \$349 million in 2005 - a growth of \$109 million or 45%.

A number of recent studies have also concluded that the financial services industry will remain strong. (See Footnotes 2, 3 and 4.)



Structural factors favor long-term growth in asset management, and Massachusetts is particularly well positioned to take advantage of these trends.

"The Competitive Advantage of Massachusetts," Prof. Michael E. Porter

Table 9.

Projected Job Growth in the Financial Services Industry to 2005

		1967	1988	1990	1991	1992	1993	1994	1995	2005
Boston	Number	22,854	44,745	40,540	38,948	40,277	41,542	45,086	47,054	54,766
	% change		95.8%	(9.4%)	(3.9%)	3.4%	3.1%	8.5%	4.4%	16.4%
Metro Region	Number	32,641	78,340	76,170	71,643	72,696	78,656	83,388	83,197	91,675
	% change		140.0%	(2.8%)	(5.9%)	1.5%	8.2%	6.0%	(0.2%)	10.2%
State	Number	46,625	107,981	103,069	96,460	96,156	99,402	103,802	102,255	110,485
	% change		131.6%	(4.5%)	(6.4%)	(0.3%)	3.4%	4.4%	(1.5%)	8.0%

In their "Leading Industries Report," the Greater Boston Chamber of Commerce found that financial services - along with health care, high technology and higher education - impact nearly half of all jobs in Greater Boston, creating direct employment for 26% of the workforce and supporting creation of nearly as many jobs in related industries. It predicted that all four will continue to be "driver" industries in the local economy in the foreseeable future.

The Chamber called the increase in the number of jobs in the securities and commodities sector during a severe recession "unusual," and predicted that sector "will continue to make a strong contribution to job growth in the years ahead."

In his state-wide study, "The Competitive Advantage of Massachusetts," Professor Michael Porter of the Harvard Business School came to similar conclusions. He identified financial services as one of the four "core clusters" of the Massachusetts economy (along with health care, information technology and knowledge creation services). Those four clusters, he found, together represent 35% of total Massachusetts employment and 37% of its total payroll.

Table 10.

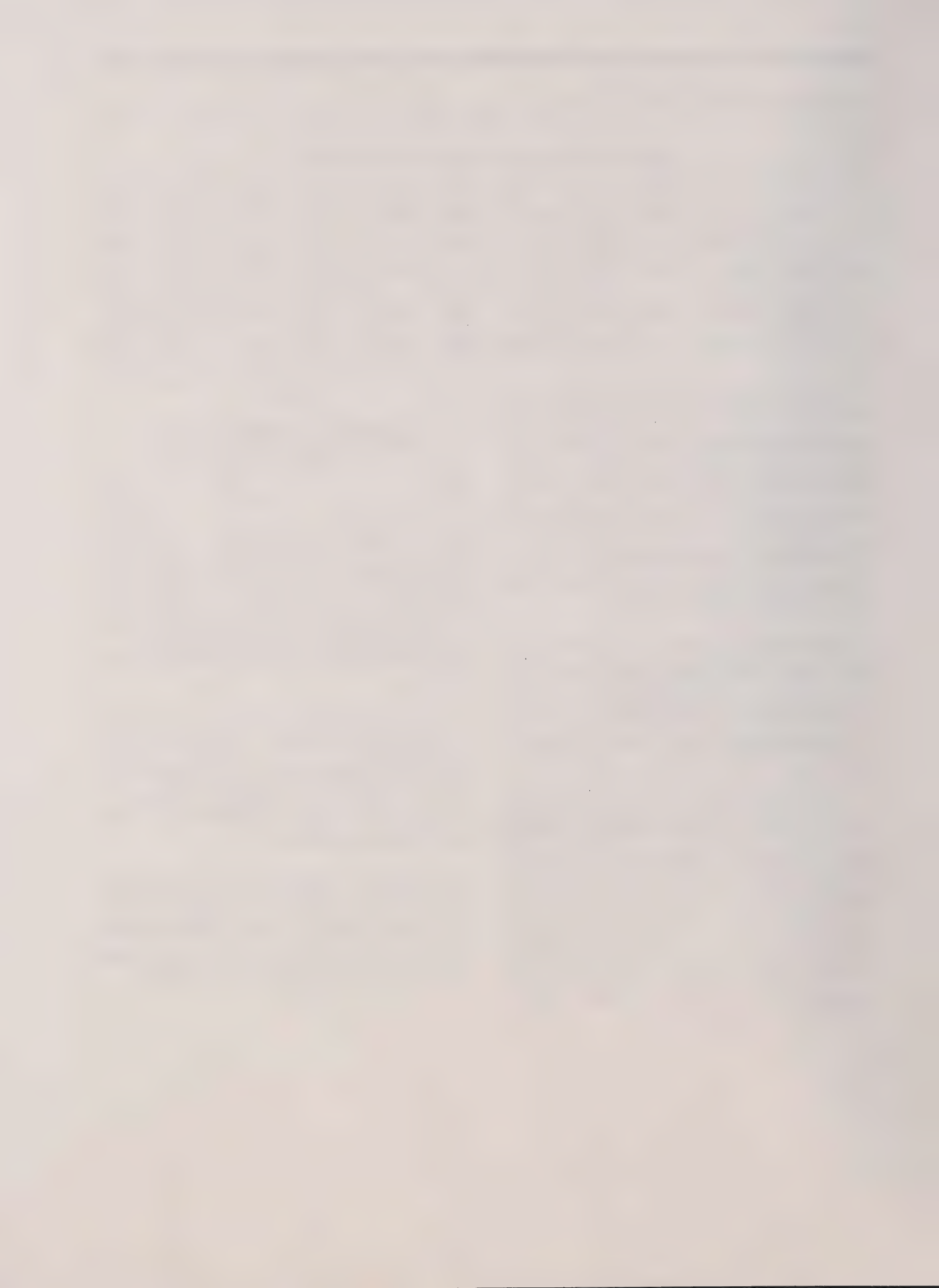
Payroll and State Income Taxes for the Financial Services Industry in Boston, Metro Region, and Massachusetts - 2005

	Payroll	State Income Taxes
Boston	\$5,042,743,748	\$243,035,035
Metro Region	\$6,582,631,700	\$317,249,935
Massachusetts	\$7,242,512,720	\$349,052,901

Note: Jobs projected by using Bureau of Labor Statistics U.S. growth rates for 2005. Average wages projected to grow at 3% inflation annually from 1995. State tax yield calculated at a 5.95% rate on net taxable income of 81% of payroll.

While Porter's study at that time found the real estate and depository institutions facing a number of pressures due to the downturn in real estate values and the sluggish economy, he found areas like asset management to be "well positioned for the future."

In 1990, in a report prepared for the City of Boston, Dr. James Howell concluded that Boston's "right industry mix for the 1990s" included "innovative producer services" encompassing fund and investment management services.



THE COMPETITION FOR JOBS GROWS STRONGER

Financial services, especially the sector that includes mutual funds, is clearly an important industry to the economy of Boston, the metropolitan area and the state, and appears to be well positioned to continue its growth. But despite the fact that the financial services industry has been a fixture in the Boston area, that growth does not, necessarily, have to take place here.

Because the industry does not rely on raw materials like manufacturing companies do, and because improved telecommunications technology allow it to operate effectively anywhere, financial services is a very "portable" industry. Banks, credit card companies, and other businesses have already established billing and back office branches far from their main offices in Boston and Massachusetts.

The investment sector is also showing signs of becoming a "mature" industry, where competition is forcing companies to look more and more closely at ways to reduce costs and increase profits. Unlike the manufacturing industry, where productions costs can vary widely based on the costs of raw materials, utilities, or labor, the costs of providing financial services do not vary as greatly from place to place. Because states are eager to attract the jobs and other economic benefits that come with hosting the financial services industry, they are willing to compete in one important area where companies can cut costs - the amount of taxes paid to state government. More and more states are offering tax concessions to get these companies to remain or relocate.

To date, Kentucky, New Jersey, New York, and Texas, Utah and Washington have changed their corporate tax laws to provide tax relief to financial services companies by assessing taxes based on the residence of the fund shareholder, not the company. Rhode Island has taken a number of steps to attract financial services companies to locate there, including reducing corporate

taxes for financial services companies and offering reduced land prices and providing state funds to finance goods and equipment as incentives for companies to locate there.

It is clear that financial services companies are more than just looking at the advantages of relocating, they are taking action. Last year, Fidelity Investments announced its intention to move some of its operations from Boston to New Hampshire, and, as a result of recently passed tax incentives, to Rhode Island, where they plan to employ anywhere from 1,000 to 2,500 employees in the near future. Shareholder Services Group has also announced its intention to move jobs from Boston to Rhode Island.

The Commonwealth of Massachusetts has responded to some of that competition. It has taken steps that include cutting taxes on banks and manufacturing companies and offering research and development tax credits and other tax incentives to encourage companies to expand or locate in economically distressed areas.

In 1995, the City of Boston also filed legislation to offer tax credits to companies based on the number of new jobs created in "Economic Opportunity Areas," in an effort to encourage employers to create jobs where they were most needed. The city is currently evaluating whether to continue to push this legislation or to support new legislation granting tax relief for companies that generate new jobs anywhere in the state.

CONCLUSION: STRATEGIES ARE NEEDED TO ENCOURAGE FINANCIAL SERVICES FIRMS TO STAY AND GROW IN MASSACHUSETTS

Boston has always been a leader in the financial services industry. Over the past three decades, however, as the manufacturing industry has dramatically declined, the financial services industry has dramatically expanded, making its place in the state economy even more important.

Today, financial services is a major economic engine in the city, the metropolitan region and the state, generating nearly 50,000 jobs in Boston and over 100,000 in the Commonwealth. Financial services generate a variety of good paying jobs, with opportunities for clerical and service workers as well as highly technical financial occupations.

The financial services industry has more than doubled in the last 30 years, and the growth has accelerated in the past decade. Financial services now account for 8.9% of all jobs in Boston, 4.7% of jobs in the region, and 3.5% in the state. All signs, from statistical projections to the testimony of experts, point to continued growth of the industry into the next century and the continued place of financial services as, in the words of the Greater Boston Chamber of Commerce, a "leading industry" in the future.

There are, however, some conditions that could jeopardize the industry's commitment to the area. Competition for the financial services industry from other states is becoming more and

more aggressive. In addition to being a very "portable" industry, financial services is also becoming a "mature" and therefore competitive industry. The industry is attracted to areas that have an educated workforce and maintain a high level of quality of life services, which are two competitive advantages this region has. But a third ingredient, tax structure, is becoming more and more important to companies deciding where to locate or expand. Indeed, some of Boston's jobs have already been transferred to other states that have offered tax relief to the industry.

Local government and business leaders have expressed concern about the ability of Massachusetts to retain these firms and encourage their growth in this highly competitive environment. If the financial services industry is to continue to be a "leading industry," government must not only *understand* the importance of but *respond* to the competition for that industry from other states and regions.

One way communities can make the global economy work locally is to encourage entrepreneurs to build innovative products that incorporate the newest and best knowledge and command a premium in world markets. But for the community to thrive in the long run, there must also be collaboration among leaders for active economic development and civic improvement.

World Class: Thriving Locally in the Global Economy, Rosabeth Moss Kanter

NOTE 1

This report is a collection of some of the most accurate, comprehensive, and comparable data yet compiled on the development of the financial services industry in Massachusetts over the last thirty years.

The data come from the federal-state Employment Security 202 series. ES 202, as it is commonly known, is generally regarded as the most reliable job data in the public domain.

Because ES 202 data come from mandatory reports by employers paying into the unemployment insurance system and not from samples or surveys, the information is the most accurate available. Because ES 202 has been in use for many years, the data can be used to track employment trends over time. Because it is used in all 50 states, ES 202 data are the most comparable available. Finally, ES 202 makes use of the Standard Industrial Classification (SIC) code, which is the most widely accepted method of categorizing workers by industry.

There are some limits to the data and the way they are organized when attempting, as this report does, to reflect the total number of employees in a particular industry.

SIC code system does not categorize workers based on the primary work done by the entire company, but based on the primary work performed by individual business establishments. Therefore, employees of the same company are often placed in

different job categories. A large investment company, for example, might have a number of different offices. Company employees in one office engaged in the actual buying and selling of mutual funds would be categorized as financial service workers - but employees in another office handling the company's data processing would be classified as business service workers.

The only public data that actually capture the total number of workers employed by all of the companies in an industry are the reports from all employers to the state's unemployment insurance system. This information, however, is used only for tax purposes and is otherwise confidential.

The only available private data that reflect the total number of workers in an a particular industry generally come from surveys conducted by associations within that industry. While valuable, these surveys rely on voluntary information, vary in their methodology, and are not usually compiled on a regular basis.

For the most complete picture of industry-wide employment, such private surveys should be used in concert with the kind of public data contained in this report.

FOOTNOTES

1. Data in all tables are derived from the Massachusetts Department of Employment and Training ES-202 Series. Metropolitan Boston refers to Primary Metropolitan Statistical Area (PMSA) except 1967 which uses the Standard Metropolitan Statistical Area (SMSA). 1995 data are for second quarter only. Financial Services refers to SIC Codes 60,61,62,67. Average annual wages are for 1994.
2. Greater Boston Chamber of Commerce. *Leading Industries. Drivers of the Regional Economy*. Boston, Massachusetts, 1995.
3. Michael E. Porter in collaboration with Monitor Company, Inc. *The Competitive Advantage of Massachusetts*. The Monitor Company and Michael E. Porter, Harvard Business School. Cambridge, Massachusetts, 1991.
4. James M. Howell. *The Howell Report. The Boston and Regional Economy into the 1990's. The Prospects for Economic Recovery*. Boston Redevelopment Authority. Boston, Massachusetts, 1990.

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